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Supreme Court, U. S.

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IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1976

No. 76—

**77-271**

ST. REGIS PAPER COMPANY,

*Petitioner,*

v.

ROYAL INDUSTRIES AND PLAS-TIES SUBSIDIARY,

*Respondents.*

ST. REGIS PAPER COMPANY,

*Petitioner,*

v.

ROYAL INDUSTRIES AND PLAS-TIES SUBSIDIARY,

*Respondents.*

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**PETITION FOR A WRIT OF CERTIORARI TO THE  
UNITED STATES COURT OF APPEALS FOR  
THE NINTH CIRCUIT**

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August 18, 1977

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IN THE

**Supreme Court of the United States****OCTOBER TERM, 1976**

No. 76—

**ST. REGIS PAPER COMPANY,***v.***Petitioner,****ROYAL INDUSTRIES AND PLAS-TIES SUBSIDIARY,****Respondents.****ST. REGIS PAPER COMPANY,***v.***Petitioner,****ROYAL INDUSTRIES AND PLAS-TIES SUBSIDIARY,****Respondents.**

**PETITION FOR A WRIT OF CERTIORARI TO THE  
UNITED STATES COURT OF APPEALS FOR  
THE NINTH CIRCUIT**

Petitioner St. Regis Paper Company ("St. Regis") respectively prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit entered on April 19, 1977.

**Opinions Below**

The opinion of the Court of Appeals (A-1)\* affirming the United States District Court for the Central District of California (A-16) after trial is reported at 552 F.2d 309.

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\* The opinions below are reprinted in full in the Appendix hereto. Page references beginning with A are to the Appendix.

The opinion of the District Court is reported at 186 U.S.P.Q. 83 (N.D.Cal. 1974); the minute order of the District Court filed March 31, 1971, is not reported (A-38).

### **Jurisdiction**

The judgment of the Court of Appeals was entered on April 19, 1977. An application for a thirty (30) day extension of time within which to file a petition for a writ of certiorari was granted by the Honorable William H. Rehnquist. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

### **Questions Presented**

1. Whether the courts below erroneously refused to direct respondents to return to petitioner the royalties paid by petitioner pursuant to a license agreement based on a patent which the District Court held would not have issued but for the erroneous representation of a false oath to the Patent Office, in violation of 35 U.S.C. § 111(c) and § 115 and 37 C.F.R. § 1.65, which patent the District Court and the Court of Appeals found to be invalid?

2. Whether the courts below erroneously refused to find that the patentee committed fraud on the Patent Office where the District Court found that he knowingly filed a false oath stating that the invention for which he sought the patent had not been in use for more than one year prior to the date of the application, in spite of his commercial sales of the product more than one year prior to the date of the application and but for this materially false oath the patent would not have issued?

3. Whether the courts below erroneously refused to grant restitution of royalties paid pursuant to a license agreement which respondents fraudulently induced peti-

tioner to enter into where the District Court rescinded the agreement after it found that petitioner's consent to the license agreement was given by mistake and induced by the failure of the respondent Plas-Ties to disclose material facts establishing the invalidity of the licensed patent?

4. Whether an assignee of a patent may avoid the penalties of a fraud committed by the patent applicant on the Patent Office by taking an assignment of the patent issued by reason of such fraud?

5. Whether the Court of Appeals erroneously refused to apply California law as required by *Erie Railroad v. Tompkins*, 304 U.S. 64 (1938), in refusing to grant restitution of all royalties paid under the license agreement pursuant to Section 1692 of the California Civil Code after rescinding the contract pursuant to the California Civil Code?

6. Whether the Court of Appeals erroneously held that petitioner is not entitled to restitution of royalties paid as mandated by state statute because of overriding federal patent law policies?

7. Whether the courts below erroneously refused to grant petitioner counsel fees in light of the exceptional circumstances of this case?

### **Statutes Involved**

Sections 102, 103, 111, 115 and 285 of Title 35 United States Code, 35 U.S.C. §§ 102, 103, 111, 115 and 285, respectively, and Rule 1.65 of the United States Patent Office Rules of Practice, 37 C.F.R. § 1.65, and Sections 1689 and 1692 of the California Civil Code are set forth in the Appendix to this petition.

### **Statement Of The Case**

Petitioner seeks review of the decision of the Court of Appeals affirming the decision of the District Court which held respondents' patent invalid and rescinded the license agreement between petitioner and respondents but denied recovery to petitioner of royalties paid to respondents pursuant to a license agreement for the invalid patent.

#### **A. Factual Background**

St. Regis commenced this action for a declaratory judgment declaring (1) invalid Royal Bower Patent No. 2,767,113 (which relates to twist type laminated wire-reinforced tie strips used for closing bread bags, etc.) ("Bower patent"); (2) for rescission under California Civil Code § 1692 of an agreement between St. Regis, as licensee, and Royal Industries ("Royal") and Plas-Ties Corporation, now Plas-Ties Subsidiary, a Royal subsidiary, (singularly or collectively referred to as "Plas-Ties"), as licensors, pursuant to which St. Regis received a limited license to make and sell the patented tie strip and use "know-how" pertaining to their manufacture; and (3) to recover the royalties paid thereunder. Prior to entering into the license agreement of May 1, 1963, St. Regis sought and received assurances from Royal and Plas-Ties in the presence of Bower, then President of Plas-Ties, as to the validity of the Bower patent. On September 12, 1967, St. Regis took the deposition of Gerald Bower, in a separate action, *Royal Industries v. St. Regis Paper Company*, Civil Action No. 67-946-FW, Central District of California, commenced by Royal to enforce a claimed oral price fixing agreement relating to the license agreement, and learned that the tie strips had been sold by Plas-Ties and had been in public use for more than one year prior to the filing of the Bower patent application. Counsel for St. Regis in 1967 advised

Royal's patent counsel who was present at Bower's deposition of this prior use and consequent invalidity of the Bower patent.

Sale of the tie strips by Plas-Ties under the direction of its then General Manager Bower, the patent applicant, more than one year before Bower's patent application was filed: (1) rendered Bower's statutory patent application oath of novelty and inventorship required by 35 U.S.C. § 111 and § 115 and 37 C.F.R. § 1.65 false; (2) made the patent application fraudulent for failure to advise the Patent Office of the true state of the prior art; and (3) invalidated the patent under 35 U.S.C. § 102(b).

Respondents' false assurance of the validity of the Bower patent while knowing it was obtained through an erroneous representation of oath gave St. Regis the right to rescind the license agreement under California Civil Code § 1689 (A-9, 31).

St. Regis, which had paid \$174,642.04 as royalties under the license agreement, stopped payment of royalties upon learning of the invalidity of the patent and commenced this action.

#### **B. Proceedings Below**

This case between citizens of diverse states arises under the Patent Laws of the United States seeking a declaratory judgment that the Bower patent is invalid and rescission under California Civil Code § 1689 (A-17, 31). Jurisdiction in the District Court was based upon 28 U.S.C. § 1332, 28 U.S.C. § 1338 and 28 U.S.C. § 2201.

##### **1. The District Court**

After a full trial on the merits, the District Court declared the Bower patent invalid and unenforceable, granted plaintiff rescission of the license agreement and

dismissed defendants' counterclaims for patent infringement and unfair competition.

The District Court held the Bower patent invalid on two grounds:

"A. Bower's oath which accompanied his patent application was false"; and

"B. Adding to . . . such tie strips [which] had been placed on sale and in public use and had been sold more than one year prior to the application . . . a cementitious substance to bond the wire to the plastic would have been obvious to a person having ordinary skill to the relevant art and is therefore not patentable." (A-26, 27).

#### a. *Bower's False Oath*

The District Court held that Bower's oath to the Patent Office, mandated by 35 U.S.C. § 111 and § 115 and 37 C.F.R. § 1.65 (A-45, 46, 47-8), in which he stated that the product described and claimed in the patent application "had not been in public use or on sale in the United States for more than one year prior to the filing date" was *false* and that "such prior manufacture, placement on sale and in public use, and sale were known to Bower prior to and at the time of his application for said patent" (emphasis added) (A-20). The trial court held that Bower's patent had to be declared invalid by reason of such false oath but failed to find that Bower's knowingly giving such false oath amounted to fraud on the Patent Office despite the Court's findings (1) that by reason of such false oath "the patent office did not have an opportunity to pass upon the patentability of the mere addition of cementitious bonding material to an otherwise unpatentable tie strip because of the erroneous representation of the oath that the product was novel without such a coating" (A-30) and (2) that "the resulting representation . . . is material to and taints the entire application

and patent claims in suit" (A-30). The District Court, in essence, found that the patent would not have issued had the Patent Examiner known the true facts (A-28, 29, 30).

The District Court failed to find fraudulent intent despite the uncontested evidence that Bower's equity interest in Plas-Ties was wholly dependent upon the issuance of the Bower patent and that at the time Bower executed the oath, his patent attorney specifically explained to him that it would be fraudulent to make the oath if the product had been on sale more than one year.

#### b. *The Claimed Invention Was Obvious*

The sole difference between the tie strips which had been sold more than one year prior to the application and hence were, under the patent law, part of the prior art, 35 U.S.C. § 102(b) (A-42) and the patent claims as issued was the addition of a cementitious coating on the wire for bonding. The District Court held that it was "clear from the file wrapper . . . that the Patent Office examiner did not consider the use of cementitious coating on the wire for bonding as being novel or unobvious" (A-28). Indeed the District Court found that a preponderance of the evidence established Plas-Ties had placed on sale and in public use the complete product including the cementitious coating more than one year before the patent application was filed, thus rendering the claims as issued unpatentable under 35 U. S. C. § 102(b) (A-21-6, 42).

#### c. *Relief in the District Court*

Although holding the Bower patent invalid, the District Court refused to refund St. Regis' royalties based on the inequitable conduct which it found. It failed to hold that Bower committed fraud on the Patent Office, although conceding that royalties would have been refunded had it found

fraud, despite its finding that Bower knowingly submitted an oath which was materially false to the Patent Office when he had a significant personal monetary interest in the issuance of the patent.

The District Court declared the patent invalid and held St. Regis is entitled to rescission of the license agreement under California law due to the invalidity of the patent but failed to grant St. Regis restitution of the benefits conferred upon Royal, the royalties paid under the agreement on the invalid patent, despite the mandate of Section 1692 of the California Civil Code.\*

## **2. The Court of Appeals**

The Court of Appeals affirmed the holding of the District Court that "the Bower patent is invalid for obviousness" and because of this affirmance did not reach the issue of Bower's false oath (A-7). The Court of Appeals affirmed the rescission of the license agreement but misinterpreted the mandatory nature of Section 1692 of the California Civil Code and denied St. Regis restitution of the benefits conferred under the rescinded agreement.

The Court of Appeals refused to refund the royalties paid under federal patent law in misplaced reliance upon *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972), cert. denied, 416 U.S. 939 (1974), and erroneously affirmed the District Court's finding of no fraud.

Despite the exceptional circumstances in this case resulting from the material misrepresentations and continued litigation by respondents after the prior sale was uncovered in 1967, the District Court and the Court of Appeals

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\* The Court held the license agreement included "know-how" and found the value of Royal's know-how to be \$53,088.90, which amount was more than covered by the payment of \$174,642.04 in royalties under the license agreement.

refused to award counsel fees to St. Regis pursuant to 35 U.S.C. § 285 (A-15).

## **REASONS FOR GRANTING THE WRIT**

- 1. A Question of Public Importance Under the Patent Laws Was Erroneously Decided When the Courts Below Permitted a Patentee Who Procured His Patent By Filing Before the Patent Office a Knowingly False Oath to Retain Royalties Paid Pursuant To the Invalid Patent Issued Thereon**

The Court of Appeals in misplaced reliance upon the Sixth Circuit's decision in *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, *supra*, held that St. Regis was not entitled to recoup royalty payments it had made to Royal for its invalid patent. As demonstrated by the facts of this case the application of the *Troxel* rationale to the conduct presented encourages inequitable conduct before the Patent Office resulting in the issuance of invalid patents, the unconstitutional effect of which is "to remove existent knowledge from the public domain" and "to restrict free access to materials already available." *Graham v. John Deere*, 383 U.S. 1, 6 (1966). *Anderson's-Black Rock v. Pavement Co.*, 396 U.S. 57, 61 (1969).

Bower by submitting an application containing a material misrepresentation to the Patent Office precluded the Patent Examiner from evaluating the sole addition to the state of the art advanced by Bower's product—the addition of cementitious coating which both the District Court and the Court of Appeals held to be obvious and unpatentable—and caused an invalid patent to be issued (A-5-7, 27). Seeking to profit from this invalid patent Royal through Plastics caused St. Regis to enter into the license agreement. St. Regis inquired as to the validity of the patent and was

assured by Royal and Plas-Ties representatives, including Plas-Ties President Bower, that the patent was valid (A-31). St. Regis paid \$174,642.04 in royalties under the agreement. Royal then brought suit to enforce a claimed oral price fixing agreement for the product covered by the invalid patent. It was only then in a deposition of Bower in 1967 that St. Regis learned fortuitously that the patent was invalid and commenced this suit. St. Regis submitted "fairly generous" (A-15) proof of the value of Royal's "know-how" and sought to recover the amount of royalties paid in excess of the value of "know-how", \$121,553.14. This was denied in misapplication of the *Troxel* doctrine.

*Troxel, supra*, held that "absent fraud or misconduct, a patentee should not be held responsible for the issuance of an invalid patent." (emphasis added) 465 F.2d at 1259. In this case Bower's misconduct so tainted the proceedings before the Patent Office (A-30) and was so contrary to the standards of candor required by patent applicants that liability should attach.

Bower completely failed to meet the spirit of good faith and candor required of a patent applicant. Applicants are held to "the highest degree of candor and good faith" when dealing with the Patent Office which "must rely upon their integrity and deal with them in a spirit of trust and confidence." *Kingsland v. Dorsey*, 338 U.S. 318, 319 (1949).

"Lacking independent research facilities of its own, the Patent Office must rely heavily on the prior art references and evidence cited by patent applicants. Our patent system requires that such persons approach the Patent Office in a spirit of candor rather than as arm's length adversaries. *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 439 F.2d 1369, 1378-1379 (5 Cir.), cert. denied, 400 U.S. 956, 91 S.Ct. 353, 27 L.Ed.2d 264 (1970), rehearing denied, 400 U.S. 1025, 91 S.Ct. 580, 27 L.Ed.2d 638 (1971). All patent applicants are under an 'uncompromising

duty' to make a full and candid disclosure to the Patent Office of all facts and circumstances relating to their claimed invention." *Jack Winter v. Kora-tron Company, Inc.*, 375 F.Supp. 1, 46 (N.D.Cal. 1974) (citations omitted).

Bower's failure to meet this standard renders inequitable the decisions below, which refuse to refund the royalties paid on this tainted patent.

By affirming the District Court's refusal to refund royalties paid in this case the Ninth Circuit has encouraged the practice of filing false applications with, and inequitable conduct before, the Patent Office. Such encouragement significantly undercuts the nature and practice of the Patent Office and requires the issuance of a writ of certiorari to maintain the integrity of the patent application process. This Court has granted writs of certiorari in patent cases "because of the public importance of the questions presented." *Mercoid Corp. v. Mid-Continent Co.*, 320 U.S. 661, 663 (1944).

"A patent by its very nature is affected with a public interest . . . The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct . . ." *Precision Co. v. Automotive Co.*, 324 U.S. 806, 816 (1945).

Whether a licensee may recover royalties paid on a patent held invalid for a false oath and material misrepresentations before the Patent Office and which would not have issued but for such false oath and material misrepresentations is an important patent law question undecided by this Court and merits the granting of the writ.

**2. The Courts Below Applied an Improper Standard for Establishing Fraud Before the Patent Office in Conflict With Decisions in Other Circuits and the Court of Customs and Patent Claims**

The District Court held that there was not sufficient evidence of fraudulent intent to find fraud on the Patent Office despite its holding (1) that Bower swore falsely in his patent application when he stated that the invention for which he sought a patent had not been sold and in use for more than one year prior to the application, (2) that Bower knew at the time of this oath that the invention had been sold and in use, (3) that this false statement materially misrepresented the state of the prior art preventing the Patent Office from passing "upon the patentability of the mere addition of cementitious bonding," and (4) the patent would not have issued had the Patent Office known the true facts. The Court of Appeals affirmed.

Petitioner submits that this standard of establishing fraudulent intent or scienter is in conflict with decisions in other courts in patent cases and places an impossible burden upon proponents of such evidence. This very standard has been held to be erroneous by the Court of Customs and Patent Appeals.

"Under ordinary circumstances, the *fact* of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the inference that there was a fraudulent intent. Where public policy demands a complete and accurate disclosure it may suffice to show nothing more than that the misrepresentations were made in an atmosphere of gross negligence as to their truth. The Commissioner and the board, by apparently giving controlling effect on this point to Curtiss's subjective belief that his invention was superior nar-

rowed the requirement almost to that of proving actual intent. This was error." *Norton v. Curtiss*, 57 C.C.P.A. (Patents) 1384, 433 F.2d 779, 795-796, (1970).

Similarly, in *Monsanto Company v. Rohm & Haas Company*, 456 F.2d 592 (3rd Cir. 1972), the Third Circuit held Monsanto's Huffman patent to have been fraudulently obtained recognizing that

"Concealment and nondisclosure may be 'evidence of and equivalent to a false representation, because the concealment or suppression is, in effect, a representation that what is disclosed is the whole truth.' *Stewart v. Wyoming Cattle Ranch Co.*, 128 U.S. 383, 388-89, 9 S.Ct. 101, 103, 32 L.Ed 439 (1888)." 456 F.2d at 599.

The use of circumstantial evidence to establish fraud was upheld in *Rival Manufacturing Company v. Dazey Products Company*, 358 F.Supp. 91 (W.D.Mo. 1973), a case which also involved the submission of a false application to the Patent Office. "Fraudulent motivation may be found in omissions or concealments involving a breach of legal duty, and often can be inferred from the circumstances. *Connolly v. Gishwiller*, 162 F.2d 428 (C.A.7 (1947)." 358 F.Supp. at 102

The circumstantial evidence submitted by St. Regis met the standards set forth in these cases.

**3. St. Regis Was Fraudulently Induced to Enter Into the Licensing Agreement**

The District Court further improperly held that the fraud practiced on St. Regis did not warrant refund of the royalties paid under the licensing agreement. As recognized by the Third Circuit in *Zenith Laboratories v. Carter-Wallace, Inc.*, 530 F.2d 508, 515 (3rd Cir.), cert. denied, 429 U.S. 828 (1976), "[W]here fraud is practiced directly on the licensee,

for example, inducement by misrepresentation to enter into a licensing agreement, the licensee has a cause of action [to recover royalties paid]. *SCM Corporation v. Radio Corporation of America*, 318 F.Supp. 433 (S.D.N.Y. 1972)." Here the District Court found that St Regis was "induced [to enter into the license agreement] by the failure of . . . Plas-Ties to disclose material facts establishing the invalidity of the licensed patent" (A-31). Thus St. Regis was induced by misrepresentations to enter into the license agreement.

The use of an incorrect standard in assessing fraud resulted in the failure to return to St. Regis \$121,553.14 paid by it in royalties over and above the amount of payments found to be paid for Royal's "know-how".

"It has been held . . . that a licensee is entitled to recoupment of royalties paid when the licensed patent was procured fraudulently. See *Nashau Corp v. RCA Corp.*, 431 F.2d 220, 227 (1st Cir. 1970); *SCM Corp. v. Radio Corp. of America*, 318 F.Supp 433, 470-472 (S.D.N.Y. 1970); *Sehokbeton Prod Corp. v. Exposaie Indus., Inc.*, 308 F.Supp. 1366 (N.D.Ga. 1969)." *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1259, n.5 (6th Cir. 1972).

#### **4. Royal as the Assignee of the Bower Patent is Chargeable with Bower's Fraud**

The courts below, although imputing to Royal Bower's knowledge that the patent was invalid, refused to charge Royal with the effects of Bower's fraud and/or inequitable conduct and have allowed it to retain the benefits of Bower's fraud—the royalty payments. This results in permitting an applicant who commits fraud on the Patent Office to profit from his fraud by assigning his patent. This result is directly contrary to long established precedent which holds that "the assignee of a patent right takes it subject to the

legal consequences of the previous acts of the patentee." *Worley v. Tobacco Co.*, 104 U.S. 340, at 344 (1876).

This policy is particularly applicable in this case as it was in *Rival Manufacturing Company v. Dazey Products Company*, 358 F.Supp. 91, 102 (W.D.Mo. 1973), since in both cases the patent was obtained through a false application.

"Plaintiff, as successor in interest to the patent by assignment from Samsonite, is in privity with Samsonite and its title is subject to the infirmities of the title of Samsonite. Because of the public interest plaintiff is now bound by all of the inequitable and deceptive conduct and lack of diligence of Samsonite, its predecessor in interest and the attorneys who acted for such predecessor in knowingly securing the issuance of the patent while concealing material facts from the Patent Office contrary to law and equity."

Bower should not be permitted to avoid the effects of his false oath through assignment.

#### **5. The Courts Below in a Claim Based Upon Diversity of Citizenship Failed to Follow the California Law of Rescission**

One of the separate causes of action alleged by St. Regis was a claim for rescission pursuant to Sections 1689 and 1692 of the California Civil Code (A-10, 16, 31, 50-52). Jurisdiction for the cause of action was based upon the diversity of citizenship between the parties, 28 U.S.C. § 1332. Under the doctrine of *Erie Railroad v. Tompkins*, 304 U.S. 64 (1938), it has been established that a district court in a diversity case sits as a state court and must apply the substantive law of that state. *York v. Guaranty Trust Co. of New York*, 326 U.S. 99, 108-109 (1945). Both the District Court and the Court of Appeals held that St. Regis

was entitled to rescission of the license agreement, but refused to order restitution. The Court of Appeals erroneously held that the restitution provision of California Civil Code Section 1692 is discretionary.

This holding is contrary to the language of the statute and the California case law. Section 1692 provides in relevant part: "The aggrieved party *shall* be awarded complete relief, *including restitution of benefits*, if any, conferred by him as a result of the transaction...." (emphasis added) (A-52). The statute uses the mandatory term "shall" rather than the discretionary word "may."

As held in *Modoc Mineral & Oil Co. v. Cal-Vada Drilling & Exp. Co.*, 236 Cal.App.2d 868, 873, 46 Cal.Rptr. 508, 511, (Dist.Ct.App. 1965):

"In an action to enforce rescission the successful plaintiff is *entitled to recover the consideration he gave* and any other compensation necessary to make him whole. (Civ.Code sec. 1692; *Utemark v. Samuel*, 118 Cal.App.2d 313, 257 P.2d 656)" (emphasis added)

See also, *Millar v. James*, 254 Cal.App.2d 530, 533, 62 Cal.Rptr. 335, 337, (Ct. App. 1967), "The 1961 enactment of Civil Code section 1692 makes clear the policy of this state to give full relief in a case of rescission, unimpeded by any technical distinction between restitution and damages."

The Court of Appeals misread the decision in *Runyan v. Pacific Air Industries, Inc.*, 2 Cal.3d 304, 85 Cal.Rptr. 138, 466 P.2d 682 (1970). In *Runyan* the court was presented with the question of whether in an action for rescission the rescinding party could obtain consequential damages in addition to restitution of benefits paid. 2 Cal. 3rd at 310. The court recognized that restitution was mandatory under Section 1692 and concluded that consequential damages which it also called restitutary damages were discretion-

ary and could be awarded *in addition to* restitution in cases of fraud, misrepresentation, etc. 2 Cal.3rd at 317.

"Some of these cases refer to such monetary awards given in an action for rescission as 'damages' or 'consequential damages.' (See also 9 Cal.Jur.2d, Cancellation of Instruments, §§ 48, 50.) For example, we said in *Hines v. Brode* (1914) 168 Cal. 507, 511-512, 143 P. 729, 731, that '[T]he vendee may rescind, and, in addition to the recovery of the consideration with which he has parted, obtain recoupment for *any other special damage* to which he has been subjected by the vendor's fraud.' (Italics added.) (See, e.g., *United Motor Etc. Co. v. Callander*, *supra*, 30 Cal.App. 41, 46, 157 P. 561) ('make good in damages'); *Bank of America v. Greenbach* (1950) 98 Cal.App.2d 220, 238, 219 P.2d 814 ('money damages'); *Carter v. Carr* (1934) 139 Cal.App. 15, 27, 33 P.2d 852 ('consequential damages,' citing *Hines v. Brode*, *supra*); *Lobdell v. Miller* (1952) 114 Cal.App.2d 328, 343, 250 P.2d 357 ('consequential damages,' citing *Carter v. Carr*, *supra*)" 2 Cal.3rd at 315-316.

Hence the Ninth Circuit's holding that under California law "restitution is discretionary with the court" (A-10) is incorrect.

This Court should grant the writ to reverse the Ninth Circuit's misapplication of California law pursuant to the principles of *Erie Railroad v. Tompkins*, *supra*.

#### **6. There is No Overriding Federal Patent Law Policy Which Prohibits the Return of Royalties Under Doctrines of State Contract Law**

The Ninth Circuit stated that it was refusing to grant restitution "due to overriding federal patent law policies." (A-11) St. Regis submits that there was no federal pre-emption and that the courts below could not refuse to apply applicable state contract law on a cause of action based

upon diversity of citizenship. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

In *Lear, Inc. v. Adkins*, 395 U.S. 653, 661-662 (1964), this Court recognized that "construction of the . . . licensing agreement is solely a matter of state law" and limited its holding that federal policy must override doctrines of state contract law only to the doctrine of licensee estoppel. Moreover, *Troxel, supra*, was directed to the very issue of whether the same federal policies involved in *Lear* should also override doctrines of state contract law with respect to the return of royalties. The District Court in *Troxel*, 334 F.Supp. 1269, 1271-2 (W. D. Tenn. 1971), held that it did. The Sixth Circuit reversed holding essentially that there was no overriding federal policy which required a return of royalties absent fraud or misconduct. The Ninth Circuit's opinion in this case that federal policies prohibit a return of royalties is directly contrary to the Sixth Circuit's decision in *Troxel, supra*, and is incorrect.

This Court should grant the writ to reverse the Ninth Circuit's holding which conflicts with the Sixth Circuit's decision in *Troxel, supra*.

#### **7. The Courts Below Improperly Refused to Award Attorneys' Fees to St. Regis**

The Courts below in conflict with decisions of other panels of the Ninth Circuit as well as decisions of other circuits improperly refused to award attorney's fees to St. Regis. The patent laws provide that attorneys' fees are to be awarded in exceptional patent cases. 35 U.S.C. § 285 (A-49). The Ninth Circuit in *Monolith Portland Midwest Co. v. Kaiser Aluminum & C. Corp.*, 407 F.2d 288, 294 (9th Cir. 1969), affirmed a finding that a case was exceptional and the resulting award of attorneys' fees where the patent had been obtained "through misrepresentations to the

Patent Office" and the patentee "had unduly prolonged the litigation."

"A patent applicant's breach of duty to the Patent Office is relevant in determining not only the validity of his patent, but also his good faith in maintaining a subsequent infringement action. An applicant's fraud on the Patent Office is enough standing alone to convert his later infringement action into an exceptional case within the meaning of section 285. But conduct short of fraud and in excess of simple negligence is also an adequate foundation for deciding that a patent action is exceptional. Such conduct is a serious breach of the patentee's duty to the Patent Office. The party who succeeds in invalidating the unlawful patent performs a valuable public service. It is appropriate under such circumstances to reward the prevailing party by giving him attorney's fees for his efforts, and it is equally appropriate to penalize in the same measure the patentee who obtained the patent by his wrongdoing. (See *Townsend Co. v. M.S.L. Industries* (7 Cir. 1966) 359 F.2d 814; *Dubil v. Rayford Camp. & Co.* (9 Cir. 1950) 184 F.2d 899, 902. Compare *Hoge Warren Zimmermann Co. v. Nourse & Co.* (6 Cir. 1961) 293 F.2d 779, 783-784.)" *Ibid.*

See also, *Maurice A. Garbell, Inc. v. Boeing Co.*, 546 F.2d 297, 300 (9th Cir. 1976). Other Circuits have applied the same standard. *Kahn v. Dynamics Corp. of America*, 508 F.2d 939, 945 (2d Cir.), cert. denied, 421 U.S. 930 (1975); *L.F. Strassheim Co. v. Gold Metal Folding Furniture Co.*, 477 F.2d 818, 824 (7th Cir. 1973).

Here in addition to obtaining the patent through misrepresentations to the Patent Office, Bower's assignee Royal brought suit to enforce an alleged oral price fixing agreement for the product covered by the invalid patent and upon being specifically advised of the facts underlying the invalidity of the patent not only forced St. Regis to bring

this action but asserted a counterclaim for infringement, which counterclaim was dismissed.

The courts below, in conflict with other decisions of the Ninth Circuit and in conflict with other circuits, improperly refused to award counsel fees to St. Regis.

For all of the above reasons St. Regis respectfully requests this Court to grant a writ of certiorari to review and correct the decision of the Court of Appeals.

### **CONCLUSION**

For the foregoing reasons this petition for a writ of certiorari should be granted.

Respectfully submitted,

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August 18, 1977

### **APPENDIX**

United States Court of Appeals  
FOR THE NINTH CIRCUIT

No. 74-3336

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St. REGIS PAPER COMPANY,  
*Plaintiff-Appellee,*  
vs.

ROYAL INDUSTRIES, and  
PLAS-TIES SUBSIDIARY,  
*Defendants-Appellants.*

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St. REGIS PAPER COMPANY,  
*Plaintiff-Appellant,*  
vs.

ROYAL INDUSTRIES, and  
PLAS-TIES SUBSIDIARY,  
*Defendants-Appellees.*

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE CENTRAL DISTRICT OF CALIFORNIA

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OPINION, UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

Before: ELY and WALLACE, Circuit Judges, and  
SOLOMON, \* District Judge

SOLOMON, District Judge:

This case involves the validity of a patent on a plastic tie strip and a method for manufacturing the product. It also involves a license agreement for the patent rights and

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\* Honorable Gus J. Solomon, Senior United States District Judge for the District of Oregon, sitting by designation.

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for the Ninth Circuit*

for the know-how used to manufacture the patented tie strips. The District Court held the patent invalid and permitted rescission of the license agreement. The Court denied the licensor royalties after the filing of this action, denied the licensee recovery of royalties paid before the filing of this action, and granted the licensor some compensation for its know-how. Both parties appeal.

Some time before June 1950, Gerald Bower formed a partnership to develop and market a plastic tie strip which could be used to tie bunches of fresh vegetables. In June 1950, the business was incorporated under the name of Plas-Ties Corporation (Plas-Ties).

On June 2, 1952, Bower filed an application for a patent on a plastic tie strip and a method for making the tie strip. The Patent Office rejected all of Bower's original claims, but he later succeeded by amendments to the application in getting some claims allowed on a narrower basis. A patent (U.S. Patent No. 2,767,113) was issued to Bower on October 16, 1956 (the Bower patent). The patented device consists of two plastic strips reinforced by a wire between them. The wire is embedded in one of the plastic strips and secured with a "cementitious substance" so that the casing cannot slide from or bunch up on the wire. The wire permits fastening the tie by merely twisting it. The plastic outer casing permits easy handling and prevents the wire from cutting the stalks of the vegetables.

In April 1963, Bower assigned his patent to Royal Industries (Royal), and Royal acquired 80 per cent of the outstanding stock of Plas-Ties. Bower owned the remaining 20 per cent of the stock, and he became president of Plas-Ties. In 1965, Royal acquired Bower's shares and Plas-Ties became a wholly owned subsidiary.

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St. Regis Paper Company (St. Regis) supplies wrapping paper to the bakery industry through one of its subsidiaries, Pollack Paper Company. The use of tie strips significantly changed the package of bakery products in the early 1960's. The new method used a tie strip around one end of the package instead of having the package tightly sealed at both ends. St. Regis lacked the technical ability to manufacture tie strips. The Bower tie strips and the machines Bower developed were suitable for bakery packaging.

On May 1, 1963, Royal and its subsidiary Plas-Ties (hereinafter referred to jointly as "Royal") entered into a license agreement with St. Regis. Under this agreement, Royal licensed St. Regis to use the Bower patent and Royal's know-how to manufacture and sell the patented tie strips. St. Regis agreed to pay Royal 10 per cent of its net dollar sales as royalties and also agreed to pay all reasonable expenses incurred by Royal in transferring its know-how to St. Regis. The agreement provided that it would terminate upon the expiration of the Bower patent in 1973.

Royal did make its know-how available to St. Regis. From 1963 to 1967, St. Regis paid Royal \$174,642.04 for royalties and expenses.

Later, a dispute unrelated to this action arose between Royal and St. Regis on whether they had entered into an oral price fixing agreement. The dispute resulted in litigation between the parties.<sup>1</sup> In preparing for that litigation,

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1. *Royal Industries v. St. Regis Paper Co.*, 420 F.2d 449 (9th Cir. 1969). Royal brought the action against St. Regis for patent infringement and unfair competition. The District Court granted St. Regis a motion for summary judgment, and we affirmed on appeal.

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for the Ninth Circuit*

St. Regis discovered evidence which it believed showed that Bower's patent was invalid. St. Regis stopped paying royalties after July 19, 1967. On April 24, 1968, St. Regis brought this action against Royal and Plas-Ties to declare the Bower patent invalid, to rescind the license agreement, and to recover royalties it paid. In a counterclaim, Royal sued St. Regis for patent infringement.

The District Court held the Bower patent invalid. It also dismissed Royal's counterclaim. The Court held that St. Regis was entitled to rescind the license agreement, but denied St. Regis and Royal a money judgment against the other. In other words, the Court held that St. Regis could not recover the royalties it had paid, and Royal could not collect additional royalties under the license agreement. The Court awarded Royal the reasonable value of its know-how, but found that this amount had been fully satisfied by St. Regis.

Both parties have appealed. The appeals raise four issues:

- (1) Is the Bower patent valid?
- (2) If the Bower patent is invalid, is St. Regis entitled to recover royalties it paid to use the patent?
- (3) If the Bower patent is invalid, is Royal entitled to recover royalties for its know-how?
- (4) Is St. Regis entitled to attorney fees?

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**I.**

**Validity of the Patent**

The District Court held that the Bower patent was invalid for obviousness and because of a false oath, which failed to disclose that the patented product had been on sale for more than one year prior to the filing of the patent application.

A condition of patentability under the Patent Act of 1952 is non-obviousness. Section 103 of the Act provides:

“A patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.” 35 U.S.C. § 103.

Royal contends on appeal that the District Court failed to apply the proper standard for determining obviousness.

The issue of obviousness is ultimately a question of law, but the underlying analysis is one of fact. *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966). The Supreme Court in *Graham* set forth the standard for determining obviousness under Section 103. The court must determine the scope and content of the prior art, the differences between the prior art and the claims at issue, and the level of ordinary skill in the pertinent art.

Here, the District Court determined that the prior art consisted of two lines of teachings. One consisted of tie strips manufactured and sold for more than a year before

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Bower applied for his patent. The other consisted of seven patents<sup>2</sup> which teach the use of a cementitious substance to bind wire or cord between two sheets of paper or other material.

The Court compared the teachings of the prior art with the claims of the Bower patent. It found that it was undisputed that tie strips manufactured and sold by Plas-Ties for more than a year before Bower applied for his patent were identical to the claims of the Bower patent, except for the use of a "cementitious coating" in the Bower patent to bind the wire to the plastic strips. And the Court found that the Wisbrock, Schindler, Crosby, Wick, and French patents teach the use of a cementitious substance to secure wire or cord between pieces of paper or other materials in the same manner and for the same purpose as the Bower patent.

Finally, the Court accepted the testimony of St. Regis's expert witness (Dean Fischer) on the level of skill in the art. Fischer testified that in view of prior teachings and the prior public use of unbonded tie strips, the product claimed in the Bower patent would have been obvious to a person of ordinary skill in the art.

Royal also argues that the Court failed to give proper weight to the presumed validity of a patent. Any such presumption would disappear, or at least be weakened, when it is shown that all the prior art had not been brought to the attention of the patent examiner. 35 U.S.C. § 282; *Alcor Aviation, Inc. v. Radair, Inc.*, 527 F.2d 113, 115 (9th Cir. 1975), cert. denied, 426 U.S. 949 (1976).

2. Wisbrock patent, U.S. Patent No. 1,474,699; Schindler patents, U.S. Patent Nos. 1,910,510, 1,929,903, and 2,290,386; Crosby patent, U.S. Patent No. 2,577,843; Wick *et al.* patent, U.S. Patent No. 2,228,332; French patent, U.S. Patent No. 918,218.

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Claim 1<sup>3</sup> of the Bower patent describes a product which depends both on the position of the wire (embedded in one of the plastic strips) and the use of a "cementitious coating" to bind the wire to the plastic strips. The District Court, based on the file wrapper, found that the patent examiner was persuaded to allow claim 1<sup>4</sup>, not because of the cementitious coating, but by the argument that Bower's positioning of the wire was a novel solution to the problem of enabling the plastic to get a good grip on the wire. Nevertheless, at the trial Royal did not dispute that more than a year before the patent application, Plas-Ties manufactured and sold tie strips which conformed in every respect to the claims of the Bower patent except for the use of a cementitious coating on the wire. These findings at least raised an issue whether Bower misrepresented the state of the prior art in his patent application and weakened the presumption of validity. See *Monroe Auto Equipment Co. v. Superior Industries, Inc.*, 332 F.2d 473, 482 (9th Cir.), cert. denied, 379 U.S. 901 (1964).

We hold that the Bower patent is invalid for obviousness. Because we affirm the District Court's holding of invalidity for obviousness, we need not reach the second ground, Bower's false oath.

3. "1. A plant-tie comprising: two ribbons of poly-vinyl chloride joined face to face in parallel to form a unified strip; a wire disposed between said ribbons lengthwise thereof; one of said ribbons being flat and the other of said ribbons having a channel at least as deep as the diameter of said wire, in which said wire is embedded; and a cementitious coating on said wire for bonding said wire to said ribbons."

4. The patent examiner at first rejected claims 1-4 of Bower's patent application. He was later persuaded to allow claim 4, which became claim 1 of the issued patent.

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**II.**

**The License Agreement**

Under the license agreement, Royal licensed St. Regis to manufacture plastic tie strips using the Bower patent and Royal's know-how. In return, St. Regis agreed to pay Royal 10 per cent of net dollar sales in royalties.

The agreement provided for the possibility that the Bower patent might be declared invalid. Section 12(b)(1) of the agreement stated:

"12. This agreement shall terminate upon the expiration of United States Patent No. 2,767,113, which is October 16, 1973, unless sooner terminated as hereinafter provided . . .

(b) Pollock may terminate this agreement after the expiration of three years from the effective date of this agreement by serving six months written notice on Royal to that effect, in the event that:

(1) Said Patent No. 2,767,113 is held invalid or so restricted in scope as to substantially lessen the protection of said patent by the final judgment of a court from which no appeal has been or can be taken. . . ."

St. Regis stopped all royalty payments on the basis of *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), but it did not comply with the procedure for terminating the agreement set out in section 12(b)(1).

The District Court held that section 12(b)(1) of the agreement was unenforceable under *Lear*, and that St.

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Regis did not have to pay royalties after the filing of this action.

The Court also held that St. Regis was entitled to rescind the agreement because the patent was invalid and because Bower knew the patent was invalid, which knowledge was imputed to Royal. The Court found that Royal was entitled to compensation for the know-how it conveyed to St. Regis and fixed the value of the know-how at \$53,088.90. But the Court denied Royal payment on the ground that this amount had been fully satisfied by the royalty payments of more than \$174,000, which St. Regis had paid Royal from 1963 to 1967. The Court disallowed St. Regis's claim for royalties paid before this action was filed.

**A. Refund of Royalties Paid**

In *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the Supreme Court rejected the doctrine of licensee estoppel which prohibited a licensee from challenging the validity of his licensor's patent in an action for royalties under the license agreement. Under the *Lear* doctrine, a licensee can avoid payment of royalties withheld before the patent was declared invalid.

The question here is whether a licensee can recover royalties on a patent paid before filing an action in which the patent was found to be invalid. The Court in *Lear* was not faced with this issue because the licensee had paid no royalties after the patent was issued.<sup>5</sup>

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5. In *Lear*, the license agreement was entered into before a patent issued. Lear, the licensee, terminated all payment of royalties before the issuance of the patent. The Court held that Lear could avoid payment of royalties from the date of the issuance of the patent. In this case the license agreement was entered into more than six years after the patent issued. St. Regis paid royalties after the patent had issued, from 1963 to 1967, and it seeks to recover those royalties.

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St. Regis contends that under California law it is entitled to restitution of all royalties paid to Royal under the license agreement less the value of Royal's know-how. St. Regis relies on California Civil Code, Section 1692, which it contends provides for "automatic" restitution of benefits conferred when a contract is rescinded.

Section 1692 provides:

"§ 1692 Relief based on rescission

. . . The aggrieved party shall be awarded complete relief, including restitution of benefits, if any, conferred by him as a result of the transaction and any consequential damages to which he is entitled; but such relief shall not include duplicate or inconsistent items of discovery.

If in an action or proceeding a party seeks relief based upon rescission, the court may require the party to whom such relief is granted to make any compensation to the other which justice may require and may otherwise in its judgment adjust the equities between the parties."

Section 1692 was designed to eliminate the confusing and complex duality of rescission procedures which existed in California by providing a single procedure to be followed in all cases where rescission is sought. *Runyan v. Pacific Air Industries, Inc.*, 2 Cal.3d 304, 466 P.2d 682 (1970). The provision permits a court in an action for rescission to grant any relief, including restitution and consequential damages, to which a party is entitled. It does not require restitution even when rescission is ordered. Restitution is discretionary with the court.

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We believe that St. Regis is not entitled to restitution in this case due to overriding federal patent law policies.

The Sixth Circuit considered the *Lear* doctrine in light of the goals sought to be achieved and concluded that the federal policy which permits a licensee to assert invalidity of the underlying patent does not entitle the licensee to a refund of all royalties paid for the use of the invalid patent. See *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972) (*Troxel I*); *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 489 F.2d 968 (6th Cir. 1973), cert. denied, 416 U.S. 939 (1974) (*Troxel II*); *Atlas Chemical Industries, Inc. v. Moraine Products*, 509 F.2d 1 (6th Cir. 1974). See also *Zenith Laboratories, Inc. v. Carter-Wallace, Inc.*, 530 F.2d 508 (3d Cir. 1976), cert. denied, 45 U.S.L.W. 3250 (U.S. Oct. 5, 1976).

The Sixth Circuit noted that the Supreme Court in *Lear* rejected the estoppel doctrine on the ground that it effectively "muzzled" licensees who might be the only individuals with sufficient economic incentive to challenge the patentability of an invention. As stated in *Lear, supra*, at 668, "federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent." This policy encourages full and free competition in the use of ideas which are in the public domain. *Lear*, therefore, is an inducement to an early adjudication of invalidity; but the Sixth Circuit cautioned that the possibility of a royalty refund might delay such a determination. The possibility of obtaining a refund of all royalties paid might induce a manufacturer to accept a license based on a patent of doubtful validity, derive the benefits of suppressed competition which the patent affords, and challenge validity only after the patent's expiration.

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The licensee would have a chance to regain all the royalties paid while having enjoyed the fruits of the license agreement. Therefore, if a refund were permitted, licensees who were only recently unmuzzled by *Lear* would again be silenced by economic self-interest rather than by state law.

We agree with the reasoning of the Sixth Circuit, and we hold that St. Regis is not entitled to the refund of royalties paid before it challenged the validity of the patent.

In *Troxel I, supra*, at 1259, n.5, the Court noted that it has been held without reliance on *Lear* that a licensee is entitled to recover royalties paid when the licensed patent was procured fraudulently. St. Regis, relying on that comment, asserts that it is entitled to restitution because Bower obtained the patent by fraud. Even if fraud is a proper basis for allowing recovery of royalties, here the District Court found there was no fraud. The findings of the Court on this issue are not clearly erroneous.

**B. Payment for Know-How**

Royal contends that the District Court erred when it held section 12(b)(1) unenforceable. It asserts that the Court failed to distinguish between the payment of royalties for the patent rights and payment for the know-how. Royal concedes that if the patent is invalid, it is not entitled to the payment of royalties for the patent rights on the basis of section 12(b)(1); but it contends that section 12(b)(1) is valid and enforceable on royalties for know-how.<sup>6</sup>

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6. St. Regis contends that this issue was not properly raised on appeal because Royal made a binding election of remedies in its counterclaim when it implicitly accepted the termination of the license agreement and sued for patent infringement rather than for enforcement of the agreement. We do not agree.

Royal did not specifically seek to enforce the agreement in its counterclaim, but the pretrial order lists as an issue whether St. Regis

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Royal's know-how consisted of the knowledge of how the machinery used to manufacture plastic tie strips was constructed, and how this machinery operated. It included detailed information of the process for manufacturing the patented tie strips, a list of material suppliers, and work room dimensions. An employee of St. Regis spent several weeks at Royal's plant studying the manufacturing process. The District Court found that this know-how was fully revealed to St. Regis.

The Court found that Royal's know-how was not essential to the manufacture of the patented plastic tie strips, but was valuable to St. Regis because it permitted St. Regis to enter the plastic tie market sooner. St. Regis bargained both for the right to use the Bower patent and for the know-how needed to use the patent effectively. The know-how was closely related to the patent rights. This interdependence is reflected in the provision sought to be enforced.

Section 12(b)(1) provides that St. Regis may terminate the agreement if the patent is declared invalid. Royal's attempt to separate the know-how from the patent rights and to enforce the agreement for know-how alone is inconsistent with section 12(b)(1) and, we believe, contrary to the intent of the parties.

When, as here, the patent rights and the know-how are so intimately intertwined, we believe that the same rule which makes royalties for patent rights uncollectible if the patent is invalid should apply with equal force to know-

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was entitled to rescind the agreement. Royal at the trial asserted that it had a contract with St. Regis, that St. Regis breached the contract, and that Royal was entitled to appropriate relief. This was sufficient to prevent Royal from being precluded from seeking to enforce the license agreement on appeal.

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how. This does not mean Royal will be deprived of compensation for know-how; it merely means Royal is not entitled to royalties under the license agreement, which did not distinguish between royalties for patent rights and royalties for know-how.

Royal urges us to address the broader question whether a contract for the payment of royalties for know-how is enforceable under *Lear*. But here we do not have a naked know-how license. In our view, the patent rights and know-how here are so intertwined that it would be unreasonable to enforce the agreement for one and not the other.

We hold that section 12(b)(1) is unenforceable for both the patent rights and the know-how. Nevertheless, we believe that Royal is entitled to compensation for its know-how.

The District Court valued the know-how at \$53,088.90. Royal asserts it is worth much more.

Although the Court ordered the contract rescinded, Royal urges us to value the know-how at one-half of the royalty rate because the parties placed this value on the know-how in discussions before the contract was executed. The contract as executed does not contain any such valuation. And the Court, after ordering rescission, was not required to place this value on the know-how even if it had been agreed to. Royal did not offer any other evidence on value. St. Regis suggested that the know-how be valued at \$53,088.90, which represents a \$20,000 advance on royalties paid by St. Regis before Royal permitted access to its know-how and one-half of the royalties paid through the second quarter of 1965, at which point the value of the know-how to St. Regis had become *de minimus*.

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The District Court accepted this valuation. In our view, it is fairly generous. And in any event, it was the only evidence on the value of the know-how before the Court. The Court had a rational basis for this valuation, and we affirm this holding.

### III.

#### **Attorney Fees**

In exceptional patent cases, the court may award reasonable attorney fees to the prevailing party. 35 U.S.C. § 285.

St. Regis contends that this is an exceptional case and that it is entitled to attorney fees. St. Regis asserts there are two factors which make this an exceptional case: Bower obtained his patent by fraud or material misrepresentation; and Royal knew or should have known that the Bower patent was invalid long before this litigation and yet it vigorously prosecuted this action.

The District Court rejected St. Regis's contentions and found that Bower's representations to the Patent Office were not motivated by fraudulent intent and that Royal had no knowledge of the infirmity of the Bower patent before trial.

The award of attorney fees is a matter of discretion, and a trial court may not be reversed except for abuse of discretion. *Hayes Spray Gun Co. v. E. C. Brown Co.*, 291 F.2d 319, 327 (9th Cir. 1961); *Pickering v. Holman*, 459 F.2d 403, 408 (9th Cir. 1972). There was no abuse here.

The judgment of the District Court is affirmed in all respects.

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

Civil No. 68-667-ALS

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ST. REGIS PAPER COMPANY,  
*Plaintiff,*  
vs.  
ROYAL INDUSTRIES, *et al.*,  
*Defendants.*

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**FINDINGS OF FACT AND CONCLUSIONS OF LAW,**  
UNITED STATES DISTRICT COURT,  
CENTRAL DISTRICT OF CALIFORNIA

The above-entitled and numbered cause came on regularly for trial. By Minute Order filed March 31, 1971, the court decided the case in favor of plaintiff and directed further proceedings as required. Further proceedings were held on June 18, 1974. Having considered all pleadings and documents filed herein, having heard oral testimony and arguments of counsel and being fully advised, the court makes the following Findings of Fact and Conclusions of Law pursuant to Rule 52 of the Federal Rules of Civil Procedure:

**Findings of Fact**

1. This is an action for a declaratory judgment of the invalidity of U.S. patent No. 2,767,113, and for rescission of a contract of patent license under this patent. The license agreement also incorporates know-how exchange provisions, relating to the manufacture of laminated plas-

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tic tie strips under the patent. Defendants have counter-claimed for damages and an injunction. The pleadings which raise the issues are the amended complaint, the answer and counterclaim and the answer to the counter-claim. See the Pretrial Conference Order, filed December 1, 1969 (hereinafter "Pretrial Order"), ¶ I, page 1.

2. Federal jurisdiction and venue are invoked on the following grounds: (1) Diversity of citizenship, 28 U.S.C. § 1332, because this is a controversy between citizens of different states and there is over \$10,000 in controversy; (2) because this is an action arising under the Patent Laws of the United States, 28 U.S.C. § 1338; and (3) this is an action for declaratory judgment pursuant to 28 U.S.C. § 2201. Pretrial Order, ¶ II, page 4.

3. The plaintiff (hereinafter referred to as "St. Regis") is a New York corporation having its principal place of business in the State of New York. Defendants (hereinafter referred to as "Royal" and "Plas-Ties") are both California corporations having their principal places of business in the State of California and in the Counties of Los Angeles and Orange, within the Central District of California. Pretrial Order, ¶ III(a), page 2.

4. Prior to September 8, 1967, the name of the defendant Plas-Ties Subsidiary was Plas-Ties Corporation. This defendant was organized in or about June 1950 and subsequently succeeded to the business of Plas-Ties Company, a partnership of Dominick Ardantz Incorporated, Milo Ferini Incorporated, and Gerald C. Bower. This partnership had earlier succeeded to the business carried on by the partnership of Dominick Ardantz and Milo Ferini (as

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individuals), doing business as Plas-Ties Company. Pre-trial Order, ¶ III(b), page 2.

5. Prior to April 1, 1963, Gerald C. Bower was general manager of the defendant Plas-Ties and also of the partnerships doing business as Plas-Ties Company. On April 1, 1963, Gerald C. Bower became President and a 20% stockholder of the defendant Plas-Ties. Pretrial Order, ¶ III(c), page 2.

6. On June 2, 1952, Gerald C. Bower filed an application in the United States Patent Office for a patent on a plastic tie strip, and a method of making such a tie strip. Thereafter, under date of October 16, 1956, Gerald C. Bower was issued United States Patent No. 2,767,113 for plastic tie strips. This patent is hereinafter referred to as "the Bower patent." Typical claims are numbers 1 and 2, as follows:

"1. A plant-tie comprising: two ribbons of polyvinyl chloride joined face to face in parallel to form a unified strip; a wire disposed between said ribbons lengthwise thereof; one of said ribbons being flat and the other of said ribbons having a channel at least as deep as the diameter of said wire, in which said wire is embedded; and a cementitious coating on said wire for bonding said wire to said ribbons."

"2. The Method of manufacturing a waterproof plant-tie which consists in: coating a wire with a cementitious material; disposing said wire between two strips of polyvinyl chloride; pressing said strips upon said wire so as to cause said wire to become embedded in only one of said strips, the other strip

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remaining substantially tangent to said wire, and continuously moving the band thus formed by said strips and said wire under pressure through the following steps; indirectly heat-treating said band, the heat being applied to and through pressure-producing elements; and indirectly cold-treating said band, the cold being applied to and through pressure-producing elements." Pretrial Order, ¶ III (d), page 3; Exhibit 1.

7. On April 2, 1963, the defendant Royal Industries obtained title to United States patent No. 2,767,113 by assignment from Gerald C. Bower, the latter then being President of defendant Plas-Ties. Simultaneously with the assignment, the defendant Royal Industries obtained ownership of 80% of the shares of defendant Plas-Ties. Sometime in 1965, defendant Royal Industries purchased the remaining 20% of the shares of Plas-Ties Corporation from Gerald C. Bower. While this action was pending, defendant Plas-Ties was merged into defendant Royal. Pretrial Order, ¶ III(e), page 3.

8. On or about May 1, 1963, plaintiff, as licensee, and defendants, as licensors, entered into a contract of patent license pertaining to plastic tie strips. Under the terms of this contract, defendants licensed plaintiff under the Bower patent (with provision for exchange of know-how) to manufacture and sell the patented plastic tie strips. The license was exclusive in the field of bakery packaging, subject on'y to the right of licensors to manufacture, use and sell in the same field, and non-exclusive in other fields of use. Pretrial Order, ¶ III(f), page 3.

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9. Gerald C. Bower, in his representative capacity as President of defendant Plas-Ties, was present at the negotiation of the said contract on behalf of defendant Plas-Ties (Tr. 435-6) Mr. J.R. Johnson, President of Royal Industries, negotiated on behalf of the defendant Royal. (Tr. 411); Exhibit 25.

10. Following execution of the aforementioned license agreement, defendant Plas-Ties made available to plaintiff its technical information pertaining to the manufacture of the plastic tie strips covered by said license. Prior to its termination, plaintiff paid to defendants under the contract of May 1, 1963, a total of \$174,642.04 in royalties and other sums under said contract. Pretrial Order, ¶ III(h); Stipulation re Payments, filed September 23, 1973.

11. Prior to June 2, 1951, and more than one year prior to the application for said United States patent No. 2,767,113, defendant Plas-Ties manufactured and placed on sale and in public use, and sold, certain plastic tie strips. Pretrial Order, ¶ III(j), page 4; Exhibit 133.

12. Such prior manufacture, placement on sale and in public use, and sale were known to Bower prior to and at the time of his application for said patent, and was also known to defendant Plas-Ties at the time said contract of May 1, 1963, was negotiated and entered into. Pretrial Order, ¶ III(k).

13. Bower testified (and it was not disputed) that the plastic tie strips referred to in Finding No. 11 comprised two ribbons of polyvinyl chloride material joined face-to-face to form a unified strip, with a wire disposed length-

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wise between the ribbons and embedded in a channel formed in one of said ribbons, the other of said ribbons being flat and substantially tangent to said wire. Pretrial Order, ¶ V(a); Tr. 203.

14. The tie strips referred to in Finding No. 11 were made by a method which included the steps of disposing the wire between the ribbons, pressing the ribbons upon the wire so as to cause the wire to become embedded in only one of said ribbons, the other ribbon remaining substantially tangent to the wire; continuously moving the composite band thus formed through a heating zone followed by a cooling zone while maintaining the band under pressure. Pretrial Order, ¶ V(b), Tr. 202, 206.

15. It was not disputed that more than a year prior to the filing of the application for the Bower patent defendant Plas-Ties made, placed on sale and in public use, and sold tie strips conforming in all respects to the claims of the Bower patent save the incorporation therein of a cementitious coating on the wire. Such tie strips were prior art to the patent in suit.

16. A preponderance of the evidence establishes that the complete product (made by the process described in the claims of the Bower patent, wherein the wire is bonded to the plastic with a cementitious coating) was placed on sale and in public use by defendant Plas-Ties more than one year before the patent application was filed. See Minute Order of March 31, 1971.

Such evidence includes the following:

(a) Bower testified that without wire bonding the ties were unacceptable for broccoli tying, because the plastic

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ribbon slipped on the wire and the ties could not be twisted and tied. Bower demonstrated the slippage and untwistability of unbonded ties to the court. Tr. 220-28, 319-20, 336.

(b) The defendant Plas-Ties made experimental sales and conducted field tests of its tie strips on broccoli prior to June 30, 1950. The obvious unacceptability of unbonded tie strips for broccoli tying, as demonstrated to the court at the trial by Bower, could not have failed immediately to manifest itself in such tests. Tr. 120-21, 150-54, 157.

(c) As early as April 27, 1950, Bower advised his firm's counsel that he had "finally got the idea [of his plastic tie strips] perfected" and that he "finally had the bugs worked out of the idea so that I could manufacture a sale-able product. Exhibit 95, page 3; Tr 129.

(d) In a 1963 publication the defendant Plas-Ties described the sequence of its development and commercial introduction of its plastic tie strips as follows:

"... There were electrical problems and mechanical problems. He pestered plastic and wire manufacturers until he came up with a combination that could be bonded tightly under heat and pressure. Then, the prototype was finished. It was tested and it worked! Christening the product Plas-Ties, Bower channeled his efforts into marketing it and discovered that it was an immediate success." (Exhibit 24, page 2).

It appears from contemporary correspondence that the product had been given the name "Plasties" as early as April 26, 1950 (Exhibit 94, first ¶). In the registration

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application for the trade mark "Plas-Ties" the date of first commercial use was given as December 1, 1950 (Exhibit 6).

(e) The plastic tie strips being offered for sale by the defendant Plas-Ties to vegetable shippers and growers as early as December 1950, were claimed by the defendant in its contemporaneous sales literature not to slip, to "STAY tied," to be liked by the field help and to be useful for tying broccoli. In that month actual samples of these tie-strips were sent out by the defendant to every vegetable grower and shipper in California and Arizona. The inference to be gained from these facts is clearly, and the Court finds that the product had already been field-tested and that the tested strips had proved acceptable. Exhibit 133; Tr. 158.

(f) In the early spring of 1951 defendant Plas-Ties moved its manufacturing operations to a larger plant in Santa Ana, and ordered additional, improved tie strip manufacturing equipment. These commitments and expenditures are not consistent with dissatisfaction by said defendant with the product then being made and sold. Moreover, Bower himself gave as the reason for this move Plas-Ties' prior commencement of commercial (as distinguished from experimental) manufacturing operations at its previous location in violation of its lease.

With regard to the date of this move the witness Leroy G. Connelly testified:

"Well, I recall shortly after he moved, we had a rather severe rain, which in this country occurs in the springtime. I went over to see Mr. Bower shortly after it rained and everything there was wet

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and Jerry had the broom and was really working getting the water out. So, I would say it was definitely springtime.

"I would place the time March, April or May." Tr. 292-93.

The U. S. Weather Bureau records of rainfall in the spring of 1951 are in evidence as Exhibit 166 and show that the last rainfall which could have been the cause of Bower's sweeping out the East First Street plant occurred on April 28 or 29.

In this pretrial deposition Bower admitted that the move occurred a "substantial period of time" before June 16, 1951. Tr. 197-98.

The witness Leonard P. James confirmed that at the time of the move Plas-Ties' production machinery had been perfected. Tr. 284. Connelly testified that Bower was satisfied with it. Tr. 293. Bower admitted that at the time of the move he felt his machinery was adequate for production purposes. Tr. 330-31.

Bower gave, as the reason for the move, "that we were not in a zone in the city where we could do any manufacturing and the neighbors had complained about it and we had to move . . . [W]e had represented it to Mr. Finely [the landlord] when we moved in that we were not going to do any manufacturing in there. We were going to perfect the process and when we got into the manufacturing state were going to move." Tr. 201.

(g) The magnitude of Plas-Ties' manufacturing operations prior to the critical date of June 2, 1951, is reflected in contemporary correspondence with a prospective cus-

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tomer, Harden Farms (Exhibit 135), and by the quantities of raw materials and shipping containers purchased. This evidence shows that the operation had advanced beyond the experimental stage prior to the critical date. No contrary explanation was offered by defendants for the consumption of such large amounts of raw materials.

Bower described Plas-Ties' production facilities as of January 2, 1951, as including one welding machine, two slitters and a printing machine capable of printing advertising messages on the tie strips. Tr. 191, 277, 313-15. On that date Plas-Ties offered "to manufacture for you in any quantity from a million on up . . ." and gave price quotations for quantities of up to 20,000,000 ties. Plas-Ties was in a position to make immediate delivery of the strips of standard sizes. Tr. 218.

The witness Floyd Blower, a supplier of shipping cartons and supplies having an office across the street from Plas-Ties' East First Street plant, testified he visited Plas-Ties within two weeks of its move to that plant (Tr. 979), and immediately commenced supplying corrugated shipping containers for Plas-Ties' bulk orders. Tr. 975-78.

Plas-Ties closing entries for the year ending April 30, 1951 showed an inventory of plastic and wire on hand of \$4,666.97. Exhibit 88; Tr. 179.

(h) In January 1951, Plas-Ties sought credit from Andrews Hardware and Metal Company in Los Angeles. Norman Root, in charge of credit accounts for Andrews, testified that Bower told him, when making that application, that the business was founded in July 1950 and that defendant Plas-Ties was in the business of "manufacturing plastic ties for the agricultural trade." Tr. 146, 934-38; Exhibit 131.

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(i) As of June 16, 1951, two weeks after the critical date of June 2, 1951, the defendant Plas-Ties requested Leroy G. Connelly to take inventory of its manufacturing facilities used in the manufacture of Plas-Ties. The machinery was appraised at \$5,090.00. Exhibit 123. Bower testified that he had produced, delivered and sold tie strips from both welding units itemized in the inventory prior to June 2, 1951. Tr. 202.

Through the circumstantial evidence as itemized above it clearly appears that before the critical date of June 2, 1951, much more of these supplies were manufactured into the tie strips then would be needed for experimental purposes. The witness Gerald Bower's attempts to account from records or memory for the product being manufactured prior to June 2, 1951, is much more vague than might be reasonably expected. No sales of any product (other than the 50,000 unbonded ties sold to the Bonita Packing Company of Santa Maria) are claimed to have taken place.

17. The Bower patent has to be invalidated on two distinct grounds:

A. Bower's oath which accompanied his patent application was false. Bower signed and filed the prescribed oath when he filed his application for patent, saying in part that the product described and claimed in the application had not been in public use or on sale in the United States for more than one year prior to the filing date. This included the product described in original claim 1 of the application. Contrary to this representation, it is uncontested that such tie strips had been placed on sale and in public use and had been sold more than one year prior to

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the application. Findings Nos. 11-15, *supra*; Minute Order of March 31, 1971; Exhibit 2, pp. 8, 13.

B. Adding to this structure a cementitious substance to bond the wire to the plastic would have been obvious to a person having ordinary skill to the relevant art and is therefore not patentable. The relevant prior art includes:

(1) The Wisbrock patent No. 1,474,699, cited in the Patent Office file wrapper, teaches a cementitious coating is put on a wire to reinforce two sheets of material and to secure the wire in place to serve the same purpose and with properties which matched the description of the cementitious substance described by Bower in the patent in suit. Minute Order of March 31, 1971; Exhibits 2 and 3.

(2) Schindler patents Nos. 1,910,510 and 1,929,903 which both teach that a wire or cord reinforcing material between two sheets is first coated with a cementitious or adhesive material and then bonded to the sheets of paper in a manner which serves the same purposes as those described for the cementitious substance in the patent in suit. Exhibits 11, 11A, 12 and 12A.

(3) Schindler patent No. 2,290,386 teaches the coating of a wire with a cementitious substance to bond the wire to paper sheets to form a plant-tie. Exhibits 16 and 16A.

(4) Crosby patent No. 2,577,843 and Wick et al. patent No. 2,228,332 and French patent No. 918,218 teach that to improve the adherence between a metal

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wire and, respectively, a rubber or vinyl composition including polyvinyl chloride, the wire should first be coated with lacquer of the same type of material as the sheets before placing the wire between the sheets in a manner similar to and for the same purpose as disclosed in the Bower patent and claimed therein. Exhibits 3, 15 and 23, respectively.

(5) The tie strips sold by Germain's to the public for more than one year prior to June 2, 1952. Exhibit 87; Tr. 925.

18. Plaintiff's expert, Dean Fischer, described the teachings of the prior patents referred to in Finding of Fact No. 17(B) and their bearing upon the disclosures of the Bower patent. Fischer gave as his opinion that, in view of those prior teachings and the prior public use and sale of unbonded tie strips by Plas-Ties, the product and process claimed in the Bower patent would have been obvious to one of ordinary skill in the art. Tr. 637-655.

19. It is clear from the file wrapper of the application for the Bower patent that the Patent Office examiner did not consider the use of a cementitious coating on the wire for bonding as being novel or unobvious.

The examiner's original reaction to Bower's patent application was to reject claims 1 through 4 of said application as unpatentable over the Wisbrock patent No. 1,474,699. As to claims 1 through 3, he adhered to his position, but he was persuaded to permit claim 4 to issue. Claim 4 differed from claim 1 in that a cementitious coating on the wire bonded it to the plastic ribbons. The examiner pointed out that the wire in Wisbrock had a cementitious coating to

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serve the same purpose and with properties which matched the description of the cementitious substance described by Bower. It is apparent that he was persuaded to allow claim 4 not by reason of the difference between the cementitious coating used by Wisbrock and Bower, but by the argument that Bower's wire is almost entirely embedded in one of the ribbons enabling the plastic "to get a good cemented grip on it" and that this is a novel solution to the difficulty of attempting to cement the wire to the plastic. Mr. Hoar, on behalf of Mr. Bower, further argued that in the prior art, especially Wisbrock, both plastic ribbons have "equal adhesion to the wire; neither, for a plastic tie, has enough to insure that the wire will not break loose."

Claim 1 of the application provided for embedding the wire in one of the ribbons, but did not call for bonding material. The examiner was persuaded that Bower's method of positioning the wire in the plastic ribbon was a novel solution, Mr. Hoar having explained, "It is comparatively easy to get the two ribbons to stick together. The difficulty lies in getting either ribbon to stick to the very small wire." But the examiner was apparently unconvinced that Bower's method of positioning the wire without cementing the wire to the plastic would produce the claimed "new structure, producing new advantages." Speaking of getting a good cemented grip on the wire, Mr. Hoar explained, "If it breaks loose, the ribbons will ruffle on it, like a laundry bag on its closure-string, and the plant-tie will become useless." This representation by itself undoubtedly was enough to convince the examiner that claim 1 did not describe a product which would produce a "new structure, producing new advantages." On

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the contrary, the product described in claim 1 could be expected to "ruffle" on the wire and become useless.

Claim 4 was allowed to become claim 1 of the issued patent. It described a product which depended both upon the manner of positioning the wire and the use of an effective cementitious substance to bond the wire and the plastic. The examiner knew and pointed out that using a cementitious substance to bond the wire to the plastic and was disclosed in earlier patents. It seems reasonable to conclude that the examiner considered the positioning of the wire to be novel but the product thereby produced without a bond to the wire to be not patentable because it would not be useful. 35 U.S.C. § 101. However, when the position of the wire combined with an effective bond between wire and plastic produced a new and useful product, the examiner doubtlessly believed that it could qualify for a patent under the statute cited, and on that ground allowed original claim 4 to issue. Minute Order of March 31, 1971.

20. The patent office did not have an opportunity to pass upon the patentability of the mere addition of cementitious bonding material to an otherwise unpatentable tie strip because of the erroneous representation of the oath that the product was novel without such a coating, as described in the original claim 1 of the application. The resulting misrepresentation regarding the product described in original claim 1 is material to and taints the entire application and patent claims in suit.

21. The Bower patent did not fail to disclose the best mode contemplated by the inventor for carrying out his invention. The matter of chamfering the groove in the belt to receive the plastic and the wire was a matter which

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would be obvious to any person reasonably skilled in the relevant art. A failure to mention this point in the specifications would not prevent a person reasonably skilled in the art from understanding and practicing the invention.

22. At the outset of the negotiations leading to the license agreement of May 1, 1963, and in the presence of Mr. Bower, plaintiff's negotiators requested assurances of the validity of the Bower patent prior to proceeding. Tr. 411-2. Bower's presence on this occasion was affirmed by Johnson at Tr. 435-6.

23. Upon its discovery of the facts concerning the prior sale and public use of tie strips by defendant Plas-Ties, plaintiff instituted this action for a rescission and for a declaratory judgment of patent invalidity. Defendants thereafter terminated the license agreement on the grounds of an alleged breach thereof by plaintiff and counter-claimed herein for infringement damages and an injunction.

24. In this action plaintiff also seeks rescission of the license agreement and restitution of royalties paid to defendants thereunder prior to its termination by defendants, pursuant to California Civil Code §§ 1689(b)(1), (2) and (6). In this connection the court finds that plaintiff's consent to the license agreement was given by mistake and induced by the failure of the defendant Plas-Ties to disclose material facts establishing the invalidity of the licensed patent.

25. Part of the consideration received by plaintiff under the license agreement of May 1, 1963, consisted of know-how of defendant Plas-Ties relating to the manufacture

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of the patented tie strips. This know-how was fully conveyed by the defendant to the plaintiff. Minute Order of March 31, 1971; Exhibit 25.

26. At the initial trial and at the subsequent hearing held on June 18, 1974, the defendants contended that the know-how has substantial value. See also, defendants' offer of proof filed March 9, 1972. However, this contention is not consistent with the testimony. Mr. John R. Johnson, President of defendant Royal Industries, has affirmed that he testified under oath at his deposition taken on August 3, 1967, to the effect that Royal charged the plaintiffs \$20,000 for the know-how. Tr. pp. 441-445; Exhibit 163. This conclusion is also borne out by the fact that Royal Industries maintained tight security around its plant and did not allow plaintiff's agents access to the know-how, primarily defendants' manufacturing machinery, until after the plaintiff's representative had handed a check for \$20,000 to the President of Royal Industries, Mr. John R. Johnson. Tr. p. 444.

27. The know-how which Royal claims was not contained in the patent was not essential to the manufacture of the patented plastic tie strips. Tr. 538-41; Finding of Fact No. 21, *supra*. However, the knowledge of how defendant's machinery was constructed and how it worked did allow plaintiff to successfully enter the plastic tie strip market more quickly than it could have done without said knowledge.

28. The plaintiff has offered to value the know-how at \$20,000 plus one-half of the royalties paid through the second quarter of 1965, totaling \$53,088.90. Plaintiff's proposed Finding of Fact No. 30. In light of the fact that the

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defendant has received \$174,642.04 in royalties and other sums under the contract and that the defendant will not be required to repay these royalties even though the patent has been declared invalid [see Conclusion of Law No. 5, *infra*], the court finds that the value of the know-how was \$53,088.90, which has been fully paid by plaintiff. Minute Order of March 31, 1971.

29. The provisions contained in ¶ 12(b)(1) of the agreement are invalid as contrary to federal law insofar as they require plaintiff to continue royalty payments for at least six months after the patent is finally declared invalid. *Lear vs. Adkins*, 395 U.S. 653 (1969); Conclusion of Law No. 3, *infra*.

30. The defendant is not entitled to any further royalties under the agreement. See Findings of Fact Nos. 28 and 29, *supra*.

31. It appears from a preponderance of the evidence and the court finds that the defendant Royal Industries had no knowledge of the infirmity of the Bower patent until the time of trial when the fact came out that the plant ties had been sold for more than one year prior to the date of submission of the patent application.

32. Plaintiff is not entitled to restitution of royalties paid to defendant prior to the termination of the license agreement. See, Conclusion of Law No. 5, *infra*.

33. Any Conclusion of Law deemed to be a Finding of Fact is incorporated herein by reference.

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**Conclusions of Law**

1. Jurisdiction over this cause is proper pursuant to 28 U.S.C. § 1332 (diversity of citizenship); 28 U.S.C. § 1338 (action arising under United States patent laws); and 28 U.S.C. § 2201 (action for declaratory judgment).
2. U.S. Letters Patent No. 2,767,113, and all claims thereunder are invalid and unenforceable.
3. The defendant was not entitled to have royalty payments continue after the plaintiff filed this suit. ¶ 12(b)(1) of the agreement in question here [Exhibit 25] states:

“(b) [Plaintiff] may terminate this agreement after the expiration of three years from the effective date of this agreement by serving six months written notice on ROYAL to that effect, in the event that:

(1) Said Patent No. 2,767,113 is held invalid or so restricted in scope as to substantially lessen the protection of said patent by the final judgment of a court from which no appeal has been or can be taken  
...” Exhibit 25.

The defendant contends that this provision entitled Royal to continued royalties under the agreement until six months after the invalidity of the patent is finally determined. Such a contention is contrary to federal law as enunciated in the case of *Lear v. Adkins*, 395 U.S. 653 (1969). In *Lear* the court determined that California's doctrine of licensee estoppel would not operate to prevent the licensee of a patent from challenging the validity of that patent. The court in *Lear* also addressed itself to the question of

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whether or not a patent licensee should be required by a contract provision to continue royalty payments during the pendency of a suit challenging the validity of the patent. 395 U.S. at 673. The court in *Lear* determined that the enforcement of a contract provision which required such continued payments would discourage licensees from challenging the validity of the patent and thereby violated the federal policy which encourages free use of ideas in the public domain. 395 U.S. at 673-74.

For the reasons stated in *Lear vs. Adkins*, 395 U.S. 653 (1969), the provisions in paragraph 12(b)(1) of the agreement in question here are unenforceable and the defendant need not have continued royalty payments after the filing of this suit challenging the patent's validity.

4. Plaintiff is entitled to rescission of the aforementioned license agreement due to the fact that the Bower patent is invalid (Conclusion of Law No. 2, *supra*) and because knowledge of its invalidity was known by Bower and is imputable to Plas-Ties under agency principles. *Acme Precision Products, Inc. vs. American Alloy Corp.*, 422 F. 2d 1395 (8th Cir. 1970).

5. The plaintiff St. Regis contends that it is entitled to the return of all royalty payments made to Royal under the license agreement of May 1, 1963. Plaintiff cites the case *Lear vs. Adkins*, 395 U.S. 653 (1969), which at page 674 allowed the licensee therein to avoid payment of royalties if he could prove patent invalidity. The court in the *Lear* case balanced the equities between licensors and licensees as follows:

“Licensees may be the only individuals with enough economic incentive to challenge the patentability of

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an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification." 395 U.S. at 670.

St. Regis is urging that this part of the holding of the *Lear* case means that the payment of royalties on an invalid patent can be avoided from the time the patent issued rather than from the time the patent is declared invalid.

Plaintiff's contention was recently rejected by the United States Court of Appeals for the Sixth Circuit in *Troxel Mfg. Co. vs. Schwinn Bicycle Co.*, 465 F. 2d 1253 (6th Cir. 1972). The Troxel court noted:

"A rule that licensees can recover all royalties paid on a patent which is later held to be invalid would do far more than 'unmuzzle' licensees. It would give the licensee the advantage of a 'heads-I-win, tails-you-lose' option." 465 F. 2d 1257.

The court continued:

"Rather than stimulating early litigation to test patent validity, such an interpretation of *Lear* would make it advantageous for a licensee to postpone litigation, enjoy the fruits of his licensing agreement, and sue for repayment of royalties near the end of the term of the patent. . . . Such an interpretation of *Lear* would defeat one of the express purposes of the court in announcing that decision." *Id.*

This court agrees with the reasoning and result of *Troxel Mfg. Co. vs. Schwinn Bicycle Co., supra*. The sort of expansion of the *Lear* holding proposed by plaintiff in the

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instant case would be an unwise and unwarranted extension. Plaintiff is not entitled to restitution of the royalties paid under the license agreement of May 1, 1963 under this theory.

6. Plaintiff alternatively argues that it is entitled to recoupment of royalties because the patent was fraudulently procured. See *Nashan Corp. vs. RCA Corp.*, 431 F. 2d 220, 227 (1st Cir. 1970); *SCM Corp. vs. Radio Corp. of America*, 318 F. Supp. 433, 470-472 (S.D.N.Y. 1970); *Schokbeton Prod. Corp. vs. Exposaic Indus., Inc.*, 308 F. Supp. 1366 (N.D. Va. 1969). The court has found that Royal Industries had no actual knowledge of the infirmity of the patent until trial of this cause (see Finding No. 31), although knowledge may be imputed through principles of agency (see Conclusion No. 4). The court has found that Bower's patent application contained a false oath (see Finding No. 17(A), *supra*). But plaintiff failed to prove by a preponderance of the evidence that Bower's representations to the Patent Office were motivated by fraudulent intent. In the absence of such proof, plaintiff's argument of fraudulent procurement must fail.

7. Defendants' counterclaims must be dismissed.

DATED: July 19, 1974

Albert Lee Stephens, Jr.

.....  
United States District Judge

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

<p>ST. REGIS PAPER COMPANY, <i>Plaintiff,</i></p> <p>- vs.</p> <p>ROYAL INDUSTRIES, et al., <i>Defendants.</i></p>	<p>Civil No. 68-677-ALS Minute Order</p>
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**MINUTE ORDER, UNITED STATES DISTRICT  
COURT, CENTRAL DISTRICT OF CALIFORNIA**

The examiner's original reaction to the claims was to reject claims 1 through 4 as unpatentable over Wisbrook. As to claims 1 through 3, he adhered to his position, but he was persuaded to permit claim 4 to issue. Claim 4 differed from claim 1 in that a cementitious coating on the wire bonded it to the plastic ribbons. The examiner pointed out that the wire in Wisbrook had a cementitious coating to serve the same purpose and with properties which matched the description of the cementitious substance described by Bower. It is apparent that he was persuaded to allow claim 4 not by reason of the difference between the cementitious coating used by Wisbrook and Bower, but by the argument that the wire is almost entirely imbedded in one of the ribbons enabling the plastic "to get a good cemented grip on it" and that this is a novel solution to the difficulty of attempting to cement the wire to the plastic. Mr. Hoar, on behalf of Mr. Bower, further argued that in the prior art, especially Wisbrook, both plastic ribbons have "equal

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adhesion to the wire; neither, for a plastic tie, has enough to insure that the wire will not break loose."

The examiner was persuaded that Bower's method of positioning the wire in the plastic ribbon was a novel solution, Mr. Hoar having explained, "It is comparatively easy to get the two ribbons to stick together. The difficulty lies in getting either ribbon to stick to the very small wire."

The examiner was apparently unconvinced that Bower's method of positioning the wire without cementing the wire to the plastic would produce the claimed "new structure, producing new advantages." Speaking of getting a good cemented grip on the wire, Mr. Hoar explained, "If it breaks loose, the ribbons will ruffle on it, like a laundry bag on its closure-string, and the plant-tie will become useless." This representation by itself undoubtedly was enough to convince the examiner that claim 1 did not describe a product which would produce a "new structure, producing new advantages." On the contrary, the product described in claim 1 could be expected to "ruffle" on the wire and become useless.

Claim 4 was allowed to become claim 1 of the issued patent. It described a product which depended upon the manner of positioning the wire and the use of an effective cementitious substance to bond the wire and the plastic. The examiner knew and pointed out that using a cementitious substance to bond the wire to the plastic was disclosed in earlier patents. It seems reasonable to conclude that the examiner considered the positioning of the wire to be novel but the product thereby produced without a bond to the wire to be not patentable because it would not be useful. 35 U.S.C. § 101. However, when the position of the wire combined with an effective bond between wire and

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plastic produced a new and useful product, the examiner doubtlessly believed that it could qualify for a patent under the statute cited.

Mr. Bower signed and filed the prescribed oath when he filed his application for patent, saying in part that the product described in the application had not been in public use or on sale in the United States for more than one year prior to the filing date. This included the product described in original claim 1 of the application. Contrary to this representation, such tie-strips had been sold to Bonita Packing Company in Santa Maria and had been placed on sale more than one year prior to the application. It was in the public domain and therefore lacking in novelty. Adding to this structure a cementitious substance to bond the wire to the plastic would have been obvious to a person having ordinary skill in the relevant art and therefore not patentable. The patent office did not have an opportunity to pass upon this question, however, because of the erroneous representation of the oath. The resulting misrepresentation regarding the product described in original claim 1 is material to and taints the entire application. Since with the true facts at hand it appears that the patent is invalid, there is no need to inquire into whether the misrepresentation was knowing or deliberate. The patent is invalid for obviousness and by reason of the oath.

A preponderance of the evidence establishes that the product described in claim 1 of the issued patent wherein the wire is bonded to the plastic was offered for sale and in public use more than one year before the application was filed. The evidence is circumstantial, but it clearly appears that a large quantity of plastic and wire was purchased before June 2, 1951. The description of the experimental or developmental use of these materials indicates that much

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more of these supplies were manufactured into tie-strips than would be needed for experimental purposes. Accounting from records or memory of the product being manufactured prior to June 2, 1951, is much more vague than might be reasonably expected and no sales of any other product are claimed to have taken place.

The patent did not fail to disclose the best mode contemplated by the inventor for carrying out his invention. The matter of chamfering the groove in the belt to receive the plastic and the wire was a matter which would be obvious to any person reasonably skilled in the relevant art. A failure to mention this point in the specifications would not prevent a person reasonably skilled in the art from understanding and practicing the invention. This is more properly in the category of a trick of the trade or know-how.

The know-how referred to in the licensing agreement between the parties was fully conveyed as had been agreed and fully paid for. The value of this know-how at this time has diminished to the point of being de minimus and its further use by plaintiff will not cause irreparable or any injury to defendant.

Plaintiff is entitled to judgment in accordance with the court's view of the evidence as outlined in this minute order. The court requests counsel to confer with the court at 2:00 P.M., April 19, 1971, regarding the necessity for further proceedings before judgment.

DATED: March 31, 1971.

ALBERT LEE STEPHENS, JR.

Albert Lee Stephens, Jr.  
United States District Judge

**SECTION 102 OF THE PATENT ACT****§ 102. Conditions for patentability; novelty and loss of right to patent**

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or on an international application by another who has fulfilled the requirements of paragraphs (1), (2), and (4) of section 371(c) of this title before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

*Section 102 of the Patent Act*

(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other. July 19, 1952, c. 950, § 1, 66 Stat. 797.

*As amended July 28, 1972, Pub.L. 92-358, § 2, 86 Stat. 502; Nov. 14, 1975, Pub.L. 94-131, § 5, 89 Stat. 691.*

**SECTION 103 OF THE PATENT ACT****§ 103. Conditions for patentability; non-obvious subject matter**

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made. July 19, 1952, c. 950, § 1, 66 Stat. 798.

**SECTION 111 OF THE PATENT ACT****§ 111. Application for Patent**

Application for patent shall be made by the inventor, except as otherwise provided in this title, in writing to the Commissioner. Such application shall include: (1) a specification as prescribed by section 112 of this title; (2) a drawing as prescribed by section 113 of this title; and (3) an oath by the applicant as prescribed by section 115 of this title. The application must be signed by the applicant and accompanied by the fee required by law. July 19, 1952, c. 950, § 1, 66 Stat. 798.

**SECTION 115 OF THE PATENT ACT****§ 115. Oath of applicant**

The applicant shall make oath that he believes himself to be the original and first inventor of the process, machine, manufacture, or composition of matter, or improvement thereof, for which he solicits a patent; and shall state of what country he is a citizen. Such oath may be made before any person within the United States authorized by law to administer oaths, or, when made in a foreign country, before any diplomatic or consular officer of the United States authorized to administer oaths, or before any officer having an official seal and authorized to administer oaths in the foreign country in which the applicant may be, whose authority shall be proved by certificate of a diplomatic or consular officer of the United States, and such oath shall be valid if it complies with the laws of the state or country where made. When the application is made as provided in this title by a person other than the inventor, the oath may be so varied in form that it can be made by him. July 19, 1952, c. 950, § 1, 66 Stat. 799.

**UNITED STATES PATENT OFFICE  
RULES OF PRACTICE 37 C.F.R. § 1.65****§ 1.65 Oath of applicant**

(a) The applicant, if the inventor, must make oath or affirmation that he does verily believe himself to be the original and first inventor or discoverer of the process, machine, manufacture, composition of matter, or improvement thereof, for which he solicits a patent; that he does not know and does not believe that the same was ever known or used before his invention or discovery thereof, and shall state of what country he is a citizen and where he resides, and whether he is a sole or joint inventor of the invention claimed in his application. In every original application the applicant must distinctly state under oath that to the best of his knowledge and belief the invention has not been in public use or on sale in the United States for more than one year prior to his application, or patented or described in any printed publication in any country before his invention or more than one year prior to his application, or patented in any foreign country prior to the date of his application on an application filed by himself or his legal representatives or assigns more than twelve months prior to his application in this country. The oath shall state whether or not any application for patent on the same invention has been filed in any foreign country, either by the applicant or by his legal representatives or assigns. If any such application has been filed, the applicant shall name the country in which the earliest such application was filed, and shall give the day, month, and year of its filing; he shall also identify by country and by day, month, and year of filing, every such foreign application filed more than twelve months before the filing of the application in this country. This oath must be subscribed to by the

*United States Patent Office Rules of Practice 37 C.F.R. § 1.65*

affiant. See § 1.153 for oath in design cases and § 1.162 for oath in plant patent applications.

(b) If the application is made as provided in §§ 1.42, 1.43, or 1.47, the oath shall state the relationship of the affiant to the inventor and, upon information and belief, the facts which the inventor is required by this section to make oath to.

(c) An additional oath may be required if the application has not been filed in the Patent Office within a reasonable time after the execution of the original oath.

(d) Cancelled. Dec. 1, 1952, 17 F.R. 10866, Amend. 16, eff. Jan. 1, 1953.

**SECTION 285 OF THE PATENT ACT**

**§ 285. Attorney fees**

The court in exceptional cases may award reasonable attorney fees to the prevailing party. July 19, 1952, c. 950, § 1, 66 Stat. 813.

**CALIFORNIA CIVIL CODE SECTION 1689****§ 1689. Grounds**

(a) A contract may be rescinded if all the parties thereto consent.

(b) A party to a contract may rescind the contract in the following cases:

(1) If the consent of the party rescinding, or of any party jointly contracting with him, was given by mistake, or obtained through duress, menace, fraud, or undue influence, exercised by or with the connivance of the party as to whom he rescinds, or of any other party to the contract jointly interested with such party.

(2) If the consideration for the obligation of the rescinding party fails, in whole or in part, through the fault of the party as to whom he rescinds.

(3) If the consideration for the obligation of the rescinding party becomes entirely void from any cause.

(4) If the consideration for the obligation of the rescinding party, before it is rendered to him, fails in a material respect from any cause.

(5) If the contract is unlawful for causes which do not appear in its terms or conditions, and the parties are not equally at fault.

(6) If the public interest will be prejudiced by permitting the contract to stand.

*California Civil Code Section 1689*

(7) Under the circumstances provided for in Sections 39, 1533, 1566, 1785, 1789, 1930 and 2314 of this code, Section 2470 of the Corporations Code, Sections 331, 338, 359, 447, 1904 and 2030 of the Insurance Code or any other statute providing for rescission.

(Enacted 1872. Amended by Stats. 1931, c. 1070, p. 2260, § 10; Stats. 1961, c. 589, p. 1733, § 1.)

**CALIFORNIA CIVIL CODE SECTION 1692**

**§ 1692. Relief based on rescission**

When a contract has been rescinded in whole or in part, any party to the contract may seek relief based upon such rescission by (a) bringing an action to recover any money or thing owing to him by any other party to the contract as a consequence of such rescission or for any other relief to which he may be entitled under the circumstances or (b) asserting such rescission by way of defense or cross-complaint.

If in an action or proceeding a party seeks relief based upon rescission and the court determines that the contract has not been rescinded, the court may grant any party to the action any other relief to which he may be entitled under the circumstances.

A claim for damages is not inconsistent with a claim for relief based upon rescission. The aggrieved party shall be awarded complete relief, including restitution of benefits, if any, conferred by him as a result of the transaction and any consequential damages to which he is entitled; but such relief shall not include duplicate or inconsistent items of recovery.

If in an action or proceeding a party seeks relief based upon rescission, the court may require the party to whom such relief is granted to make any compensation to the other which justice may require and may otherwise in its judgment adjust the equities between the parties.

(Added by Stats. 1961, c. 589, p. 1734, § 3. Amended by Stats. 1971, c. 244, p. 373, § 1, operative July 1, 1972.)

**CERTIFICATE OF SERVICE**

I hereby certify that three copies of the foregoing Petition for a Writ of Certiorari were served on the following by mailing by first class air-mail to their respective attorneys at the address indicated below:

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I further certify that all parties required to be served have been served.

Dated: August 18, 1977

NICHOLAS L. COCH

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